



Arnold Schwarzenegger, Governor
State of California
Business, Transportation and Housing Agency

Department of Managed Health Care
980 9th Street, Suite 500
Sacramento, CA 95814
(916) 255-2432 voice
(916) 255-2280 fax
elo@dmhc.ca.gov e-mail

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via electronic mail and FedEx delivery

Ms. Janette Casillas
Chief Deputy Director
California Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

**RE: FINAL REPORT ON THE EVALUATION OF SANTA BARBARA SAN LUIS OBISPO
REGIONAL HEALTH AUTHORITY MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Casillas:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Santa Barbara San Luis Obispo Regional Health Authority's (SBSLORHA) HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SBSLORHA.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SBSLORHA were enrolled in the HFP at the time the services or capitated coverage were provided.
- B Summarized the total capitation and benefit payments within the detailed data provided by SBSLORHA and compared the total payments to the amount reported on Schedule 6 submitted by SBSLORHA.
- C Summarized the total payments made by SBSLORHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SBSLORHA on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and SBSLORHA and corresponded with management personnel at SBSLORHA. Primary contact at SBSLORHA was Mouline Chiourn, Accountant III. The methodology and results for each of the objectives are described below.

II Methodology

A Determined whether 100% of the children who received services paid by SBSLORHA were enrolled in the HFP at the time the services were provided.

- 1 DMHC obtained electronic files containing, Fee-For-Service (FFS) and Pharmacy claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for whom payments was made for benefits as a SBSLORHA subscriber during the period of July 1, 2007 through June 30, 2008.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on SBSLORHA's FFS and Pharmacy files to determine if there were any payments made by SBSLORHA for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 – Capitation and Fee for Service payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

Table 1

Claims/Capitation Payments Category	SBSLORHA's HFP Claims Data		Ineligible Claims Data		Error % on Amount
	Number of claims/services	Amount	Number of claims/services	Amount	
Capitation	28,458	\$103,303	179	\$650	0.63%
FFS	23,366	\$1,927,447	69	\$9,191	0.48%
Pharmacy	4,984	\$238,531	46	\$1,105	0.46%

Note for Table 1: Capitation, FFS, and Pharmacy payment mismatches identified during the examination were determined to be immaterial by the examiner and were not proposed as adjustments for the audit.

B Summarized the total benefit payments within the detailed data provided by SBSLORHA and compared the total payments to the amount reported on Schedule 6 submitted by SBSLORHA.

Using electronic files and paper documentation received from SBSLORHA in Section II above, and SBSLORHA's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6.

This objective represents payments made by SBSLORHA to their contracted providers and not payments made by MRMIB to SBSLORHA.

Table 2

Difference between Schedule 6 reported amounts and HFP Claims Data Details

Description	Amount Reported on Sch 6	SBSLORHA's HFP Claims Data Payment Amount	Difference Over/(Under) Stated	Error % on Sch 6
Inpatient Services - Per Diem	\$197,816	\$206,194	\$8,378	4.24%
Primary Professional Services - Noncapitated	\$1,145,970	\$1,164,765	\$18,795	1.64%
Other Medical Professional Services - Capitated	\$0	\$103,328	\$103,328	100%
Other Medical Professional Services - Noncapitated	\$602,952	\$499,624	(\$103,328)	(17.14%)
Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$1,692	\$8,832	\$7,140	421.97%
Other Medical Expense	\$69,629	\$50,280	(\$19,349)	(27.79%)

Note on Table 2: The SBSLORHA's HFP claims data provided was analyzed based on the period of service and has been determined the most accurate measure of medical expense for the period of the examination. Additionally, the claims data included a review of payments identified through August 17, 2009 to ensure capture of all amounts which would have been identified through accruals/incurred-but-not-reported liabilities.

- C Summarized the total payments made by SBSLORHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SBSLORHA on Schedule 6**

Table 3
Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER /(UNDER)
	Subscriber Months	28,413	28,413	0
1	Premium Payments from State	\$2,268,610	\$2,383,655	(\$115,045) ¹
	Affiliated Entities and Nonaffiliated Entities			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	Expenses			
	Medical and Hospital			
5	Inpatient Services - Capitated	\$0	\$0	\$0
6	Inpatient Services - Per Diem	\$197,816	\$206,194	(\$8,378) ²
7	Inpatient Services - Fee for Service/Case Rate	\$0	\$0	\$0
8	Primary Professional Services - Capitated	\$0	\$0	\$0
9	Primary Professional Services - Noncapitated	\$1,145,970	\$1,164,765	(\$18,795) ²
10	Other Medical Professional Services - Capitated	\$0	\$103,328	(\$103,328) ³
11	Other Medical Professional Services - Noncapitated	\$602,952	\$499,624	\$103,328 ³
12	Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$1,692	\$8,832	(\$7,140) ⁴
13	POS Out-of-Network Expense	\$0	\$0	\$0
14	Pharmacy Expense	\$235,948	\$235,948	\$0
15	Other Medical Expense	\$69,629	\$50,280	\$19,349 ²
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$147,747	\$147,747	\$0
17	Total Medical and Hospital (lines 5 to line 16)	\$2,401,754	\$2,416,718	(\$14,964)
A	Gross Profit	(\$133,144)	(\$33,063)	
B	MEDICAL LOSS RATIO	105.87%	101.39%	

Note 01: The difference in revenue is generated from a reporting error and retro payments received after June 30, 2008 for services in exam period. SBSLORHA's supporting documentation showed SBSLORHA received \$2,370,924 from MRMIB, which reconciled with the amount provided by Maximus data up to June 30, 2008. The remaining \$12,731 is from retro payments received after June 30, 2008.

Note 02: The differences in expense amount are generated from a data compilation methodology. The balance per DMHC review has been determined based on a historic review of payment data based on the identified service date and receive date. SBSLORHA's Schedule 6 methodology is based upon accrual accounting.

Note 03: Capitation payments for behavioral health services reported on line 11 as Other Medical Professional Services – Non-Capitated were reclassified to line 10 as Other Medical Professional Services – Capitated.

Note 04: Inpatient Hospital-Out of Network payments reported under line 6 were reclassified to line 12 as Non-Contracted Emergency Room and Out-of-Area Expenses, not including POS. Additionally, the amount was adjusted based on SBSLORHA's HFP payment data (see Note 2 for variance explanation).

III Summary of Findings

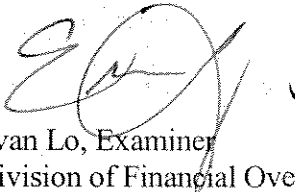
- A SBSLORHA reported Total Revenue, Medical and Hospital Expenses, and Medical Loss Ratio as \$2,268,610, \$2,401,754, and 105.87% respectively. Per DMHC review, Total Revenue, Medical and Hospital Expenses, and Medical Loss Ratio is \$2,383,655, \$2,416,718, and 101.39% respectively. The majority of differences in the expense accounts are generated from a data compilation methodology. The balance per DMHC review has been determined based on a historic review of payment data based on the identified service date and received date. SBSLORHA's Schedule 6 methodology is based upon accrual accounting.

IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SBSLORHA on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Evan Lo, DMHC Examiner with any questions pertaining to this report.

Sincerely,



Evan Lo, Examiner
Division of Financial Oversight



Stephen Babich, Supervising Examiner
Division of Financial Oversight

cc: Lan Yan, Federal Compliance Unit, MRMIB